

Tethys Petroleum Limited

Consolidated Financial Statements
For the years ended December 31, 2021 and 2020

Contents

Responsibility Statement of the Directors in Respect of the Annual Report and Accounts	1
Independent Auditor’s Report to the Shareholders of Tethys Petroleum Limited	2
Consolidated Financial Statements	8
Notes to Consolidated Financial Statements	12 - 46

Responsibility Statement of the Directors in Respect of the Annual Report and Accounts

The accompanying consolidated financial statements and all the information in the Annual Report and Accounts are the responsibility of the Board of Directors. The consolidated financial statements have been prepared by management, acting on behalf of the Board of Directors, in accordance with the accounting policies described in the notes to the consolidated financial statements. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards, appropriate in the circumstances, as issued by the International Accounting Standards Board. The consolidated financial information contained elsewhere in the Annual Report and Accounts has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets.

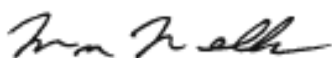
External auditors have examined the consolidated financial statements and have expressed an opinion on the consolidated financial statements. Their report is included with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors of the Company has established an Audit Committee, consisting of independent non-management directors, to review the consolidated financial statements with management and the auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

We confirm that to the best of our knowledge:

- the consolidated financial statements, prepared in accordance with International Financial Reporting Standard (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the subsidiaries included in the consolidation taken as a whole; and
- the Management Discussion & Analysis includes a fair review of the development and performance of the business and the position of the Company and the subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board



William Wells
Executive Chairman
April 25, 2022



Adeola Ogunsemi
Director
April 25, 2022

INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of Tethys Petroleum Limited

Opinion

We have audited the consolidated financial statements of Tethys Petroleum Limited and its subsidiaries (hereinafter – the “Group”), which comprise the consolidated statements of financial position as at December 31, 2021, the consolidated statements of loss and comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – “IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – “ISAs”). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (“IESBA Code”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to the section of Note 19 entitled ‘Exploration and Production Contract Work Programs’ in the consolidated financial statements, which describes that the work programs for exploration and production contracts include a required level of “Investments” (financial obligations) as defined in the contracts. Failure by the Group to meet the required level of financial obligations in any given year results in a financial penalty for that year of 1% of the amount by which actual performance falls short of the required level. Repeated non-compliances by a license holder could result in a license being terminated, unless the non-compliances have been remedied by the license holder or waived by the licensing authority. At the date of this report the Group had not received any notifications of actual or threatened termination of any of the Group's licenses. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of oil and gas property

The Group has oil and gas assets in both the production stage and exploration and evaluation stage. There is the risk that long term cash flows will not be sufficient to realise the value attributed to capitalised expenditure on these assets. \$60.0 million has been capitalised in property, plant and equipment for those assets in the production stage as at December 31, 2021 (December 31, 2020: \$48.5 million).

Significant management judgement is involved to determine whether there is an impairment of the assets. Impairment of the assets may result in the use of the going concern basis of preparation to be inappropriate. We therefore identified the recoverability of the oil and gas property and exploration and evaluation assets as a significant risk, which was one of the most significant assessed risks of material misstatement.

The Group's accounting policy on recoverability of the oil and gas property and exploration and evaluation assets, is shown in Note 2 to the consolidated financial statements and related disclosures are included in Notes 11.

In responding to the key audit matter, we performed the following audit procedures:

- Obtaining management's assessment of indicators of impairment for oil and gas property and exploration and evaluation assets, examining licenses and resource reports produced by geological experts;
- Testing the mathematical accuracy of management's impairment calculation;
- Determining the competence, capabilities and objectivity of third-party experts used to estimate oil and gas reserves;
- Reviewing the appropriateness of management's key assumptions including the oil and gas sales price, which was benchmarked against forecast oil and gas prices from an independent source;
- Confirming that the amount of oil and gas reserves included within the calculation was not in excess of the proved and probable amount estimated by a third-party.

Revenue recognition and contract accounting

A total of \$15.9 million of revenue was recognised for the sale of crude oil and natural gas, \$9.9 million and \$6.0 million for gas sales, and oil sales, respectively (2020: \$13.0 million). Revenue is recognised in the consolidated financial statements at a point in time when the control of the gas and oil passes to the customer and physical delivery occurs. There is judgment involved in the classification of revenues from sold oil and in the timing of the reduction of unearned revenues. We therefore identified revenue recognition and contract accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.

The Group's accounting policy on revenue recognition is shown in Note 2 to the consolidated financial statements and related disclosures are included in Note 6.

In responding to the key audit matter, we performed the following audit procedures:

- Performing substantive analytical procedures over both oil and gas revenue streams by comparing the quarterly volumes and amounts of revenue with customers;
- Obtaining oil and natural gas sales contracts that were in place during the financial year and for key components of the contracts, assessing whether revenue was recognised in accordance with IFRS 15 "Revenue from contracts with customers";
- Agreeing revenue to documentation of oil and gas extraction volume to confirm consistency of revenue recognised;
- Testing the accuracy of accounting for unearned revenues as at the reporting date and during the year with respect to the contracts entered into with customers;
- Agreeing a sample of oil and natural gas sales transactions to relevant supporting documentation to confirm that revenue has been recognised in accordance with the Group's accounting policy;
- Receiving the confirmation letters and act of reconciliations from major customers as at the year end.

Key Audit Matters (continued)

Provisions

The Group makes provision for the future cost of decommissioning oil and gas production facilities discounted back to present value. These costs are expected to be incurred between 2023 and 2029. At the year-end, a provision of \$2.2 million was recognised (2020: \$1.7 million).

The calculation and recognition of the provision in the consolidated financial statements requires a number of significant assumptions, including the impact of significant contingencies disclosed in Note 19, the selection of an appropriate discount rate and estimation of the cost of decommissioning oil and gas facilities. Changes in these assumptions could significantly affect the amount provided for in the consolidated financial statements. We therefore identified provisions as a significant risk, which was one of the most significant assessed risks of material misstatement.

The Group's accounting policy on provisions is shown in Note 2 to the consolidated financial statements and related disclosures are included in Notes 15 and 19.

In responding to the key audit matter, we performed the following audit procedures:

- Identifying the key assumptions and inputs used within management's calculation of the asset retirement obligation and assessing the key assumptions against local market and industry trends in order to determine whether the assumptions used are reasonable and can be sufficiently supported;
- Benchmarking the discount rate used in the calculation of the asset retirement obligation against comparable market data and assessing the appropriateness of the use of the discount rate;
- Communicating with legal advisors employed by the Group to understand the status of litigation involving the Group and the probability of the Group incurring liabilities as a result of this litigation;
- Making enquiries of the Group's in-house legal team to understand their awareness of ongoing or threatened litigation, their assessment of the Group's exposure to litigation and the probability of the Group incurring liabilities as a result of this litigation; and
- Evaluating whether ongoing litigation and claims should be recognised as provisions or disclosed as contingent liabilities.

Deferred tax

The Group is subject to income taxes in a number of jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for tax assessments based on estimates of whether additional taxes will be due.

The Group's accounting policy on deferred tax is shown in Note 2 to the consolidated financial statements and related disclosure is included in Note 9.

In responding to the key audit matter, we performed the following audit procedures:

- Identifying the key assumptions and inputs used within management's calculation of the deferred tax and assessing the key assumptions against IFRS and local tax code in order to determine whether the assumptions used are reasonable and can be sufficiently supported;
- Communicating with tax consultants employed by the Group to understand the appropriateness of assumptions used;
- Recalculation of deferred tax checking the mathematical accuracy and agreeing the tax balances used in calculation with tax declarations.

Key Audit Matters (continued)

Going concern

The Group assessed its ability to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2021. Taking into consideration the Group's current activities, projected positive cash flows and such factors like a confirmation of commercial oil reserves, increase of volume of oil extraction in 4th quarter 2021 and increase of oil and gas prices, the Group prepared assessment and forecasts in relation to going concern.

The Group's related disclosure on going concern is included in Note 1.

In responding to the key audit matter, we performed the following audit procedures:

- Considering the inherent risks associated with the Group's business model including effects arising from external factors, assessing and challenging the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period;
- Confirming that the amount of oil and gas production and capital expenditures included in forecasts were in line with the amounts estimated by a third party;
- Assessing the construction, integrity and accuracy of the model used for the purposes of cash flow forecasting;
- Agreeing key inputs into the model, such as revenue and cost assumptions, to underlying budgets and forecasts approved by the Board of Directors;
- Reviewing the appropriateness of key judgments and key assumptions made in the Group's cash flow forecast model;
- Reading other information that includes projections beyond the assessed going concern period, and assessing whether the disclosures provided give rise to any event or condition outside of the going concern period that may cast significant doubt over the Group's ability to continue as a going concern;
- Recalculating the sensitivity analysis prepared by management to assess their accuracy, challenge management's assessment of going concern and consider the appropriateness of management's sensitivity analysis.

Other information

Management is responsible for other information, which includes the Management's Discussion and Analysis for the year ended December 31, 2021, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with those charged with governance of Tethys Petroleum Limited regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, action taken to eliminate threats or related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton LLP



Yerzhan Dossymbekov
Partner

April 25, 2022
Almaty, the Republic of Kazakhstan

Tethys Petroleum Limited

Consolidated Statements of Financial Position


As at December 31

(in thousands of US dollars)

	Note	2021	2020
<i>Non-current assets:</i>			
Property, plant and equipment	11	60,047	48,539
Restricted cash		368	93
Trade and other receivables	12	-	14
Total non-current assets		60,415	48,646
<i>Current assets:</i>			
Cash and cash equivalents	18	9,277	1,747
Trade and other receivables	12	3,911	3,106
Inventories		341	318
Total current assets		13,529	5,171
Total assets		73,944	53,817
<i>Non-current liabilities:</i>			
Financial liabilities - borrowings	13	3,893	5,549
Deferred tax liabilities	9	10,499	4,612
Provisions	15	2,211	1,706
Total non-current liabilities		16,603	11,867
<i>Current liabilities:</i>			
Financial liabilities - borrowings	13	2,685	-
Current taxation		2,046	541
Deferred revenue	6	14,282	8,137
Trade and other payables	14	15,969	8,352
Total current liabilities		34,982	17,030
Total liabilities		51,585	28,897
<i>Equity:</i>			
Share capital	16	10,755	10,495
Share premium	16	371,955	370,814
Other reserves	16	46,219	46,192
Accumulated deficit		(406,570)	(402,581)
Total equity		22,359	24,920
Total equity and liabilities		73,944	53,817
Commitments and contingencies	19		
Subsequent events	20		

The notes on pages 12 to 46 form part of these consolidated financial statements.

The consolidated financial statements were approved by the Board on April 25, 2022 and were signed on its behalf.



W. Wells
Chairman



A. Ogunsemi
Director

Tethys Petroleum Limited

Consolidated Statements of Loss and Comprehensive Loss

For the year ended December 31

(in thousands of US dollars, except per share amounts)

	Note	2021	2020
Sales revenues	6	15,906	13,040
Production expenses		(3,253)	(2,779)
Depreciation, depletion and amortisation	11	(3,277)	(3,634)
Impairment charges	11	(1,036)	(57,630)
Administrative expenses	7	(3,209)	(3,089)
Share-based payments	16	(27)	-
Other gains and losses	8	(399)	15,030
Foreign exchange gains and losses		230	(160)
Finance costs	13	(1,177)	(2,645)
		(12,148)	(54,907)
Profit/(loss) before tax		3,758	(41,867)
Taxation	9	(7,747)	3,346
Loss for the year and total comprehensive loss for the year attributable to shareholders		(3,989)	(38,521)
Loss per share attributable to shareholders:			
Basic and diluted (\$)	10	(0.04)	(0.40)

No dividends were paid or are declared for the year (2020: nil).

The notes on pages 12 to 46 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of US dollars)

	Note	Share capital	Share premium	Accumulated deficit	Other reserves	Total equity
At January 1, 2020	16	6,832	360,769	(365,703)	45,556	47,454
Loss for the year		-	-	(38,521)	-	(38,521)
Compound instrument extinguished	13	-	-	1,643	(1,643)	-
Compound instrument issued	13	-	-	-	2,279	2,279
Transactions with shareholders						
Shares issued	16	3,663	10,045	-	-	13,708
Total transactions with shareholders		3,663	10,045	-	-	13,708
At December 31, 2020 and January 1, 2021	16	10,495	370,814	(402,581)	46,192	24,920
Loss for the year		-	-	(3,989)	-	(3,989)
Share-based payments	16	-	-	-	27	27
Transactions with shareholders						
Shares issued	16	260	1,141	-	-	1,401
Total transactions with shareholders		260	1,141	-	-	1,401
At December 31, 2021	16	10,755	371,955	(406,570)	46,219	27,359

Other reserves include reserves arising on the issuance of options, warrants and compound instruments and are denoted together as “other reserves” on the consolidated statement of financial position. These reserves are non-distributable.

The notes on pages 12 to 46 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

For the year ended December 31

(in thousands of US dollars)

	Note	2021	2020
Cash flow from operating activities			
Loss after tax		(3,989)	(38,521)
Adjustments for:			
Share-based payments		27	-
Net finance cost		1,177	2,645
Depreciation, depletion and amortisation	11	3,277	3,634
Impairment charges	11	1,036	57,630
Other gains and losses		399	(15,030)
Taxation		7,747	(3,346)
Net change in non-cash working capital	18	6,177	11,260
Cash from operating activities		15,851	18,272
Corporation tax paid		(937)	(779)
Net cash from operating activities		14,914	17,493
Cash flow from investing activities			
Interest received		26	123
Acquisition of exploration and evaluation assets ¹		-	2,111
Acquisition of property, plant and equipment		(15,491)	(9,069)
Movement in restricted cash		(274)	(18)
Net change in non-cash working capital	18	7,004	1,362
Net cash used in investing activities		(8,735)	(5,491)
Cash flow from financing activities			
Proceeds from issuance of shares	16	1,401	-
Proceeds from borrowings		-	7,304
Repayment of borrowings		-	(14,620)
DSFK settlement	19	-	(3,424)
Net cash from/(used in) financing activities		1,401	(10,740)
Effects of exchange rate changes on cash and cash equivalents		(50)	(209)
Net increase in cash and cash equivalents		7,530	1,053
Cash and cash equivalents at beginning of the year		1,747	694
Cash and cash equivalents at end of the year		9,277	1,747

Note 1 – amount in 2020 is stated net of oil sales receipts of \$2,557,000 during the testing phase.

The notes on pages 12 to 46 form part of these consolidated financial statements.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

1 General information and going concern

Tethys Petroleum Limited (hereinafter “Tethys” or the “Company”, together with its subsidiaries “the Group”) is incorporated in the Cayman Islands and the address of the Company’s registered office is One Nexus Way, Camana Bay, Grand Cayman, KY1-9005, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan. Tethys’ principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the TSX Venture Exchange (“TSXV”). The Company is also listed on the Kazakhstan Stock Exchange (“KASE”).

Going concern

In assessing its going concern status, the Group has taken account of its principal risks and uncertainties, financial position, sources of cash generation, anticipated future trading performance, its borrowings, and its capital expenditure commitments and plans.

To assess the resilience of the Group’s going concern assessment in light of the sanctions imposed on certain Russian institutions and individuals by the global community in February 2022 and subsequently, that could impact the oil price received by the Group, management performed the following downside scenario that is considered reasonably possible over the next 12 months from the date of approval of the consolidated financial statements. As such, this does not represent the Group’s ‘best estimate’ forecast, but was considered in the Group’s assessment of going concern, reflecting the current evolving circumstances and the most significant and reasonably possible risk identified at the date of approving the consolidated financial statements.

Scenario: The Group’s income and profits are materially reduced due to oil prices received during the forecast period being 25% lower than the current contractual price.

The Group would seek to mitigate this by reducing discretionary capital expenditure, including one or more of the three Kul-bas exploration wells and the eight shallow gas wells the Group is planning to drill in 2022.

The Group’s forecast net cashflows under the downside scenario above is considered to be adequate to meet the Group’s financial obligations as they fall due over the next 12 months. This includes \$2.8 million due for repayment of the Gemini loan in October 2022 and \$6.3 million due for repayment of the convertible debenture in April 2023, although it is currently anticipated that the debenture will be converted into shares with no impact on the Group’s cash flows. After these loans have been repaid the Group will have no borrowings.

The Board of Directors is therefore satisfied that the Group’s forecasts and projections, including the downside scenario above, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2021.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements are presented in United States dollars (“\$”). Foreign operations are included in accordance with the policies set out in this note.

Statement of compliance

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention except as modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss and are in accordance with International Financial Reporting Standards (“IFRSs”).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in note 4.

New and amended standards adopted by the Group

During the year ended December 31, 2021, there were no new or amended IFRS standards adopted by the Group. The accounting policies applied herein are consistent with those disclosed in the consolidated financial statements for the year ended December 31, 2020.

New and amended standards and interpretations issued but not yet adopted

The Group has assessed the impact of the following amendments to the standards and interpretations applicable for future periods and do not expect these to have a material impact on the Group’s consolidated financial statements at the adoption date:

- IAS 1 – Presentation of Financial Statements (“IAS 1”), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2023;
- The annual improvements process addresses issues in the 2018-2020 reporting cycles including changes to IFRS 9, Financial Instruments, IFRS 1, First Time Adoption of IFRS, IFRS 16, Leases, and IAS 41, Biological Assets. These improvements are effective for periods beginning on or after January 1, 2022;
- IAS 37 – Provisions (“IAS 37”), has been amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. These amendments are effective for periods beginning on or after January 1, 2022; and

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

- IAS 16 – Property, Plant and Equipment (“IAS 16”), has been amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. These improvements are effective for periods beginning on or after January 1, 2022.
- IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”). In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of accounting estimates. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The Group continues to assess the impact of the following amendment:

- IAS 12 – Income Taxes (“IAS 12”), has been amended to recognise deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These amendments are effective for periods beginning on or after January 1, 2023.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. All subsidiaries, as listed in note 17, have been consolidated into the Company’s consolidated financial statements.

Inter-company transactions, balances and unrealized gains or losses between subsidiaries are eliminated. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting date as the Company.

Joint arrangements

The Group classifies its interests in joint arrangements as either joint operations (if the company has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considers the structure of the arrangement, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Where the Group has an interest in a joint operation, it recognises its own assets, liabilities and transactions, including its share of those incurred jointly.

The Group's interests in joint ventures are accounted for using the equity method of accounting. Under the equity method, the Group's investment is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture, less distributions received and less any impairment in value of the investment. The Group's Consolidated Statements of Loss and Comprehensive Loss reflects the Group's share of the profit or loss after tax and other comprehensive profit or loss of the joint venture, until the date on which significant influence or joint control ceases.

When the Group's share of losses in the joint venture equals or exceeds its interest in the entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. Financial statements of joint ventures are prepared for the same reporting year as the Company.

Accounting policies of the joint venture are consistent with accounting policies adopted by the Company.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers have been identified as the Board of Directors.

Foreign currency translation

Items included in the financial statements of all of the Company's subsidiaries are measured in United States dollars (\$) which is the currency of the primary economic environment in which the subsidiaries operate ("the functional currency"). These consolidated financial statements are presented in \$, which is the Group's functional currency.

All monetary assets and liabilities denominated in foreign currencies are translated into \$ at the rate of exchange in effect at the reporting date. Non-monetary assets are translated at historical exchange rates.

Revenue and expense items (excluding depreciation and amortisation which are translated at the same rates as the related assets) are translated at the average rate of exchange.

Exchange gains and losses arising on translation are taken to the Consolidated Statements of Loss and Comprehensive Loss.

Revenue from contracts with customers

The Group is in the business of producing and selling crude oil and natural gas. Revenue from contracts with customers is recognised when control of the crude oil or natural gas is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the crude oil and natural gas. The Group has concluded that it is the principal in its revenue arrangements because it controls the crude oil and natural gas before transferring them to the customer. Contracts with customers

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

have one performance obligation to deliver crude oil or natural gas at prices stated at the contracts, with no variable considerations.

Revenue from sale of natural gas is recognised at the point in time when control of the asset is transferred to the customer, when it is delivered via the Group's gas pipeline at the meter point with the State-owned gas trunk-line. The normal credit term is 30 days after the end of the calendar month of supply.

Revenue from sale of crude oil is recognised at the point in time when control of the asset is transferred to the customer, when it is delivered at the well-site. Credit terms can vary from payment in advance of delivery to 30 days after the date of delivery.

Advance payments received from customers are shown in the Group's consolidated statement of financial position as deferred revenue until such time as the conditions for revenue recognition have been met at which time they are shown as sales revenue in the Consolidated Statements of Loss and Comprehensive Loss.

Oil and gas exploration and evaluation expenditure

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Exploration and evaluation expenditures, including license acquisition costs, are capitalised as exploration and evaluation assets when incurred. Expenditures directly associated with an exploration well are capitalised until the determination of reserves is evaluated. All other associated exploration and evaluation expenditures are carried forward as an intangible asset in the consolidated statement of financial position where the rights of tenure of the property are current and it is considered probable that the costs will be recouped through successful development of the property, or alternatively by its sale. Capitalised exploration and evaluation expenditures are written down to recoverable amount where the above conditions are no longer satisfied.

If it is determined that a commercial discovery has not been achieved in relation to the property, all other associated costs are written down to their recoverable amount. If commercial reserves are found, exploration and evaluation intangible assets are tested for impairment and transferred to appraisal and development tangible assets as part of Property, plant and equipment. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

Test production and the appraisal and development phase

Test production is production that is generated in the appraisal and development phase before commercial discovery of oil or gas is officially recognised. Revenue generated from test production is credited against the capitalised cost of the well until commercial and technical feasibility is established and the project is deemed to have crossed over into the production phase. Revenue and costs generated from a field classified as operating in the production phase is recorded through the Consolidated Statements of Loss and Comprehensive Loss.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Oil and gas properties in the production phase

Oil and gas properties within Property, plant and equipment are stated at cost, less accumulated depletion and accumulated impairment losses.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties, as long as the facts and circumstances indicate that the field has commercially viable reserves.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the asset retirement obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Once commercial production in an area of interest has commenced, oil and gas properties are depleted on a unit-of-production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved and probable reserves of the relevant area. The unit-of-production rate for the depletion of field development costs takes into account expenditures incurred to date, together with future development expenditure to develop the proved and probable reserves. Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

Other property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is charged so as to write off the cost of these assets less residual value over their estimated useful economic lives, for the following classes of assets:

Vehicles	Straight line	4 years
Computer equipment	Straight line	3 years
Office equipment	Straight line	5 years

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within the Consolidated Statements of Loss and Comprehensive Loss.

Impairment of non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified to oil and gas properties or whenever facts and circumstances indicate potential impairment. An impairment loss is recognised for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less costs to sell and their value in use.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the Consolidated Statements of Loss and Comprehensive Loss so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less costs to sell and value in use).

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Asset retirement obligation ("ARO")

Provision is made for the present value of the future cost of abandonment of oil and gas wells and related facilities. This provision is recognised when a legal or constructive obligation arises.

The estimated costs, based on engineering cost levels prevailing at the reporting date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. Provisions are measured at the fair value of the expenditures expected to be required to settle the obligation using a pre-tax risk free rate, updated at each reporting date that reflects current market assessments of the time value of money and the risks specific to the obligation. The corresponding amount is capitalised as part of exploration and evaluation expenditure or oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of ARO is capitalised, whilst the charge arising from the accretion of the discount applied to the ARO is treated as a component of finance costs.

Inventories

Inventories consist of spare parts and consumable materials and are shown at the lower of cost and net realisable value. Cost is determined on a first-in-first-out method for spare parts and consumable materials inventories.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Taxation including deferred taxation

The tax expense represents current tax and deferred tax.

Current tax is based on the taxable profits for the year. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability settled.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statements of Loss and Comprehensive Loss, net of any reimbursement. The increase in the provision due to passage of time is recognised as interest expense.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying capital asset or project under construction are capitalised and added to the asset or project cost during construction until such time as the asset or project is substantially ready for its intended use. Where funds are specifically borrowed to finance an asset or project, the amount capitalised represents the actual amount of borrowing cost incurred. Where funds used to finance an asset or project form part of general borrowings, the amount capitalised is calculated by using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognised in the Consolidated Statements of Loss and Comprehensive Loss in the period in which they are incurred.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Restricted cash

Restricted cash comprises credit card deposits and interest bearing deposits held in Kazakhstan to comply with subsoil use agreements terms for "asset retirement obligations".

Financial instruments

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss ("FVPL"), directly attributable transaction costs. Financial instruments are recognised when the Group becomes a party to the contracts that give rise to them and are classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if the host contract is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets not designated upon initial recognition as amortised cost or fair value through other comprehensive income ("FVOCI"). A financial asset is classified in this category principally for the purpose of selling in the short term, or if so designated by management. Transaction costs are expensed as incurred. On initial recognition, a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI may be irrevocably designated as FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets measured at FVPL are measured at fair value with changes in fair value recognised in the consolidated statements of operations.

Financial assets at FVOCI

On initial recognition of an equity investment that is not held for trading, an irrevocable election is available to measure the investment at fair value upon initial recognition plus directly attributable transaction costs and at each period end, changes in fair value are recognised in other comprehensive income ("OCI") with no reclassification to the consolidated statements of earnings. The election is available on an investment-by-investment basis. Investments in equity securities, where the Group cannot exert significant influence, are designated as financial assets at FVOCI.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and is not designated as FVPL. Financial assets classified as amortised cost are measured subsequent to initial recognition at amortised cost using the effective interest method. Cash and cash equivalents, restricted cash, trade and other receivables and certain other assets are classified as and measured at amortised cost.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net earnings when the liabilities are derecognised as well as through the amortisation process. Borrowing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Trade and other payable and borrowings are classified as and measured at amortised cost.

Derivative instruments

Derivative instruments, including embedded derivatives, are measured at fair value on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives are recorded in net earnings.

Fair values

The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cashflow analysis; and, pricing models.

Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

Level 1 fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Impairment of financial assets

A loss allowance for expected credit losses is recognised in the Consolidated Statements of Loss and Comprehensive Loss for financial assets measured at amortised cost. At each reporting date, on a forward-looking basis, the Group assesses the expected credit losses associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment model does not apply to investments in equity instruments. The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

Derecognition of financial assets and liabilities

A financial asset is derecognised when either the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the asset have expired nor the Group has transferred its rights to receive cash flows from the asset, the Group will assess whether it has relinquished control of the asset or not. If the Group does not control the asset then derecognition is appropriate. A financial liability is derecognised when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in net earnings.

3 Financial Risk Management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk, commodity price risk, interest rate risk and foreign exchange risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the Group's management of risk, including the identification and analysis of risks faced by the Group and the consideration of controls that monitor changes in risk and minimise risk wherever possible.

a) Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises from the Group's loans receivable from jointly controlled entities, cash and cash equivalents and accounts receivable balances. With respect to the Group's financial

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

assets, the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments.

The maximum exposure to credit risk as at the reporting date is:

	2021	2020
Trade receivables , gross	-	134
Trade receivable, allowance for credit losses	-	(134)
Other receivables	869	422
Loan receivable from joint venture, gross	3,626	3,447
Loan receivable from joint venture, allowance for credit losses	(3,626)	(3,447)
Cash and cash equivalents	9,277	1,747
Restricted cash	368	93
	10,514	2,262

At December 31, 2021, trade receivables amounted to \$nil (2020: \$134,000). No trade receivables were overdue past 30 days (2020: \$134,000). The Group seeks to minimise credit risk from trade receivables by dealing with known counter-parties and invoicing and collecting payment in advance wherever possible.

Deposits at financial institutions included in cash and cash equivalents and restricted cash are not covered by bank guarantees. Whilst deposits are held with reputable banks of good standing, there is nevertheless a risk of credit loss should one of the banks fail and default on its obligations. The Group seeks to minimise credit risk from deposits at financial institutions by utilising financial institutions with acceptable financial standing and where spreading deposits across more than one financial institution when balances reach certain levels.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. This risk relates to the Group's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Group reported a loss of \$4.0 million for the year ended December 31, 2021 (2020: \$38.5 million loss) and an accumulated deficit as at that date of \$406.6 million (December 31, 2020: \$402.6 million) and negative working capital of \$21.5 million (December 31, 2020: negative \$11.9 million). In addition, the Group reported positive cash flow from operating activities of \$14.9 million for the year ended December 31, 2021 (2020: \$17.5 million).

The Group's processes for managing liquidity risk includes preparing and monitoring capital and operating budgets, co-ordinating and authorising project expenditures and ensuring appropriate authorisation of contractual agreements. The budget and expenditure levels are reviewed on a regular basis and updated when circumstances indicate change is appropriate. The Group seeks additional financing based on the results of these processes.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

The following are the contractual maturities of financial liabilities, including estimated interest payments:

As at December 31, 2021	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities:						
Trade and other payables	15,969	15,969	15,969	-	-	-
Financial liabilities - borrowings (note 13)	6,578	8,223	2,818	5,405	-	-
Total	22,547	24,192	18,787	5,405	-	-

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

Commodity price risk

Commodity price risk arises from the effect that fluctuations of future commodity prices may have on the price received for sales of crude oil and natural gas. The marketability and price of crude oil and natural gas that is produced and may be discovered by the Group will be affected by numerous factors that are beyond the control of the Group.

Crude oil and natural gas prices are subject to wide fluctuations. Any material decline in spot prices could result in a reduction of Tethys' future net production revenues and impact on the commercial viability of the Group's existing and future oil and gas discoveries. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in volumes and the value of Tethys' oil and gas reserves, if the Group elected not to produce from certain wells at lower prices. For example, a 20% net price reduction from the 2021 average sales prices would result in a reduction of \$1.9 million in gas revenues and a reduction of \$1.2 million in oil revenues based on the 2021 gas sales volume of 115,647 Mcm and the 2021 oil sales volume of 314,143 bbls.

All of these factors could result in a material decrease in the Group's net production revenue causing a reduction in its acquisition and development activities. There were no commodity price financial derivatives outstanding as at December 31, 2021 and 2020.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long term loans have been agreed at fixed interest rates and consequently are not exposed to changes in market interest rates and the Group accepts the opportunity cost of favourable changes in market interest rates and does not seek to mitigate this risk.

The Group has limited exposure to interest rate risk on cash and cash equivalents. Interest earned on cash and cash equivalents for the year ended December 31, 2021 was \$26,000 (2020: \$123,000).

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

As at the reporting date the Group's interest rate profile was:

	Fixed rate financial instruments	Total
As at December 31, 2021		
Restricted cash	368	368
Cash and cash equivalents	9,277	9,277
Financial liabilities - borrowings	(6,578)	(6,578)
Total	3,067	3,067
As at December 31, 2020		
Restricted cash	93	93
Cash and cash equivalents	1,747	1,747
Financial liabilities - borrowings	(5,549)	(5,549)
Total	(3,709)	(3,709)

Foreign exchange risk

The Group is exposed to risks resulting from fluctuations in foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Group's cash flow and future profits. The Group is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the \$. In addition, expenditures in Kazakhstan are denominated in local currency, Tenge. The Group also attempts to negotiate exchange rate stabilisation conditions in new local Tenge denominated service and supply contracts in Kazakhstan.

If the Group holds significant surplus funds for long periods of time these are usually held in \$ to minimise foreign exchange risk. However, the Group does maintain deposits in Tenge, as disclosed in the following table, to fund ongoing general and administrative activity and other expenditure incurred in these currencies.

The carrying amounts of the Group's significant Kazakhstani Tenge denominated monetary assets and liabilities at the reporting dates are as follows:

In \$'000 equivalent	2021	2020
Cash and cash equivalents	9,199	1,308
Trade and other receivables	869	2,306
Trade and other payables	(15,117)	(8,048)
Net exposure	(5,049)	(4,434)

The following table details the Group's sensitivity to a 10% weakening in \$ against the respective foreign currencies, which represents management's assessment of a reasonably possible change in foreign exchange rates. A 10% strengthening in \$ against the respective foreign currencies would have the same impact.

Effect to profit or (loss) before tax in \$'000	2021	2020
KZT	(505)	(443)

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

b) Capital risk management

The Group's capital structure is comprised of shareholders' equity and borrowings, net of cash and cash equivalents.

The Group's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Group is managed and adjusted to reflect changes in economic conditions.

The Group has funded its expenditures on commitments from existing cash and cash equivalent balances, primarily received from issuances of shareholders' equity and debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

Financing decisions are made by management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

The Group's capital structure is summarised in the table below:

	2021	2020
Total financial liabilities - borrowings (note 13)	6,578	5,549
Less: cash and cash equivalents	(9,277)	(1,747)
Net (cash)/debt	(2,699)	3,802
Total equity	22,359	24,920
Total equity and borrowings, net of cash and cash equivalents	19,660	28,722

Note 1 - refer to note 1 to consolidated financial statements.

The Group regularly assesses whether projected cash flows are sufficient to service its borrowings and support ongoing operations. Consideration is given to reducing borrowings or raising funds through an alternative route such as the issuing of equity.

4 Critical judgments and accounting estimates

The preparation of financial statements requires management to make certain judgments, accounting estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. Accordingly, the impact of these estimates, assumptions and judgments on the consolidated financial statements in future periods could be material. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Critical accounting estimates and assumptions

The significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are summarised as follows:

Recoverability of asset carrying values

The Group assesses its property, plant and equipment and intangible exploration and evaluation assets, for possible indicators of impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date. Such indicators include changes in the Group's business plans, market capitalisation, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

If there are low oil prices or natural gas prices during an extended period, the Group may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, the higher of fair value less cost of disposal ("FVLCD") or value-in-use ("VIU"). Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas, exchange rates and future development costs.

CGU Identification

A cash generating unit ("CGU") is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors its operations. The Group's CGUs correspond to its separate subsoil use contracts.

Oil and gas reserves

Proved and probable oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure costs and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being changed.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Asset retirement obligation

Provisions for environmental clean-up and remediation costs associated with the Group's drilling operations are based on current legal or constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, prices, discovery and analysis of site conditions and changes in clean-up technology.

Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for tax assessments based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Other significant areas of judgment

The significant areas of critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are summarised as follows:

Going concern

The Board has considered the Group's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements, in determining the ability of the Group to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2021. The assessment of the Group's ability to execute its strategy to meet its future funding requirements involves judgment.

Functional currency

The Group has foreign operations, principally in Kazakhstan. Significant judgment is required in determining the functional currency of those operations with consideration given to the currency of the primary economic environment in which it operates. This includes assessing inter alia the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services and the currency that mainly influences labour, material and other costs of providing goods. A number of secondary factors are also taken into account. The functional currency of the Company and foreign operations is the United States dollar (\$).

De-recognition of assets and liabilities on loss of control of subsidiaries

Where subsidiaries have been struck off or dissolved and the Company loses control of those subsidiaries their assets and liabilities and the related non-controlling interest are de-recognised in the consolidated financial statements. It is possible that where a subsidiary is terminated in this way that, for a period of years after the strike-off, creditors, shareholders or other claimants can revive the struck-off company by applying to the courts to obtain satisfaction of their claims. A creditor could attempt to hold Tethys Petroleum Limited

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

responsible for a subsidiary's obligations and request a court lift or pierce the corporate veil. Significant judgment is required to assess whether the Company has lost control of a subsidiary and should de-consolidate its assets and liabilities and whether there are any facts or circumstances, for example the existence of any guarantees, that result in the Company being responsible for the obligations of its subsidiaries.

Under-fulfilment of Work Program Commitments

The Group has annual work program commitments under its exploration and production contracts where non-compliance or under-fulfilment of financial obligations carries the risk of penalties and in some instances cancellation of the contract and forfeiture of licences. The Group has not met all of its obligations under some of its exploration and production contracts in more than one year leading to the imposition of penalties but has not had any of its contracts cancelled. Significant judgment is required in determining whether the likelihood of exploration and production contracts being retained and/or extended at the end of contract terms in instances where not all obligations have been fulfilled and whether there has been any impairment to the related oil and gas assets.

5 Segmental Reporting

Geographical segments

The following is an analysis of the Group's revenue, results and assets by reportable segment:

2021	Kazakhstan	Corporate	Total
Gas sales	9,899	-	9,899
Oil sales	6,007	-	6,007
Segment revenue	15,906	-	15,906
Profit/(loss) before taxation	5,072	(1,314)	3,758
Taxation	(7,722)	(25)	(7,747)
Loss for the year	(2,650)	(1,339)	(3,989)
Total assets ¹	73,839	102,913	73,944
Total liabilities ¹	146,365	8,028	51,585
Expenditure on exploration & evaluation assets, property, plant and equipment	15,491	-	15,491
Depreciation, depletion & amortisation	3,277	-	3,277
Finance costs	-	1,177	1,177

Note 1 – Total is after elimination of inter-segment items of \$102,808,000.

In 2021, gas sales were made to one customer in Kazakhstan representing 62% of segment revenue. At December 31, 2021 an amount of \$826,000 had been paid in advance by this customer, refer to note 6 for further details.

In 2021, oil sales were made to one customer in Kazakhstan representing 38% of segment revenue. At December 31, 2021 an amount of \$13,456,000 had been paid in advance by a new customer, refer to note 6 for further details.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

2020	Kazakhstan	Corporate	Total
Gas sales	11,045	-	11,045
Oil sales ²	1,992	-	1,992
Other revenue	3	-	3
Segment revenue	13,040	-	13,040
(Loss)/profit before taxation	(54,161)	12,294	(41,867)
Taxation	3,385	(39)	3,346
(Loss)/profit for the year	(50,776)	12,255	(38,521)
Total assets ¹	53,602	102,116	53,817
Total liabilities ¹	125,434	5,364	28,897
Expenditure on exploration & evaluation assets, property, plant and equipment	9,515	-	9,515
Depreciation, depletion & amortisation	3,634	-	3,634
Finance costs	-	2,645	2,645

Note 1 – Total is after elimination of inter-segment items of \$101,901,000.

Note 2 – in accordance with the Group's accounting policy and industry practice, oil sales of \$2.6 million and oil production costs of \$0.2 million relating to test production from the KBD-02 well were capitalised to exploration & evaluation expenditure and not shown in the Group's income statement until 30 September 2020 when commercial reserves were determined.

In 2020, gas sales were made to one customer in Kazakhstan representing 85% of segment revenue. At December 31, 2020 an amount of \$7,963,000 had been paid in advance by this customer, refer to note 6 for further details.

6 Sales revenues and deferred revenue

6.1 Sales revenues

	2021	2020
<i>Kazakhstan:</i>		
Gas sales	9,899	11,047
Oil sales	6,007	1,993
Revenue	15,906	13,040

6.2 Deferred revenue

	2021	2020
<i>Kazakhstan:</i>		
Gas sales	826	7,963
Oil sales	13,456	174
Deferred revenue	14,282	8,137

The Group has received payments in advance from customers for future deliveries of crude oil and natural gas. These amounts are recognised as revenue when control of the crude oil or natural gas is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the crude oil and natural gas.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

7 Administrative expenses

Administrative expense by nature	2021	2020
Staff expenses	1,598	1,611
Non-executive director fees	201	257
Professional fees	581	507
Other administrative expenses ¹	829	714
Total	3,209	3,089

Note 1 – includes travel, office, regulatory, insurance, vehicle, investor relations, socio-economic program contributions and bank charges.

8 Other gains and losses

Other losses of \$399,000 comprise provisions made with respect to trade receivables, materials inventory amounts and estimated credit loss for deposits with financial institutions. In the prior year, other gains of \$15,030,000 mainly arose from early settlement of borrowings at less than their carrying value.

9 Taxation

Tethys is domiciled in the Cayman Islands which has no corporate income tax. The Group also operates in other tax jurisdictions, the most significant of which is Kazakhstan. Taxation of corporate profits in Kazakhstan comprises Corporate Income Tax (CIT) at 20% and Excess Profits Tax (EPT) which applies at graduated rates on profits earned above certain profit thresholds. The provision for income taxes is different from the expected provision for income taxes for the following reasons:

	2021	2020
Profit/(loss) before income taxes	3,758	(41,867)
Income tax rate	20%	20%
(Income tax expense)/expected income tax recovery	(752)	8,373
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(386)	(67)
Revisions in tax estimates and foreign exchange impact on tax pools	(558)	(2,740)
Excess profits tax	(1,021)	-
Impact of effective tax rates in other foreign jurisdictions	(3,403)	1,832
Losses and tax assets not utilised/recognised	(1,627)	(4,052)
	(7,747)	3,346
Current tax expense, corporate income tax	(836)	(273)
Current tax expense, excess profits tax	(1,021)	-
Deferred tax (expense)/recovery	(5,890)	3,619
Total	(7,747)	3,346

The temporary differences comprising the deferred income tax liability are as follows:

	2021	2020
Capital assets	10,073	3,511
Other	426	1,101
Deferred tax liability	10,499	4,612

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

With the positive recent progress made in the development of the Group's oil and gas fields the Group now expects to earn taxable profits in coming years upon which both CIT and EPT will be due. Accordingly, the Group has re-estimated its deferred tax liabilities during the year using the average CIT and EPT rate expected to apply in the periods the deferred tax balances will reverse resulting in an additional tax charge in the current period. The Group's deferred tax liability mainly arises from the different treatment of fixed asset capital allowances for tax purposes and depletion of oil & gas assets for accounting purposes.

The deferred tax liability includes a withholding tax liability of \$1,483,000 (2020: \$1,470,000) that would become payable on the remittance of amounts owed by subsidiaries.

The movement in deferred income tax liability in each year was as follows:

	2021	2020
Deferred tax liability at January 1	4,612	8,087
Recognised in profit or loss	5,890	(3,619)
Reclassification from current income tax liability	-	406
Tax paid	(3)	(262)
Deferred tax liability	10,499	4,612

Deferred income tax assets are recognised for tax loss carry forwards and other deductible temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group has not recorded deferred tax assets in respect of the following temporary differences:

	2021	2020
Capital assets	72,114	67,937
Tax losses	17,803	21,507
Other	950	938
Total	90,867	90,382

10 Loss per share

	Units	2021	2020
Loss for the purpose of basic and diluted earnings/(loss) attributable to ordinary shareholders	\$'000	(3,989)	(38,521)
Weighted average shares – basic and diluted	000s	106,831	96,355
Per share amount – basic and diluted	\$	(0.04)	(0.40)

Loss per share is calculated by dividing the profit/(loss) attributable to shareholders of the Group by the weighted average number of ordinary shares in issue during the year. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the Company is loss making there is no difference between basic

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

and diluted earnings per share.

11 Property, plant and equipment

	Oil and gas properties ¹			Assets in the course of construction		Other fixed assets ²			Total net book amount
	Cost	Amortisation	Total	Cost	Total	Cost	Depreciation	Total	
January 1, 2020	115,728	(92,444)	23,284	47,602	47,602	1,206	(1,139)	67	70,953
Additions	6,850	-	6,850	2,034	2,034	80	-	80	8,964
Transfer of E&E assets	3,660	-	3,660	26,226	26,226	-	-	-	29,886
Depletion and depreciation	-	(3,653)	(3,653)	-	-	-	19	19	(3,634)
Impairment	(52,759)	42,528	(10,231)	(47,399)	(47,399)	-	-	-	(57,630)
January 1, 2021	73,479	(53,569)	19,910	28,463	28,463	1,286	(1,120)	166	48,539
Additions	10,059	-	10,059	5,689	5,689	73	-	73	15,821
Disposals	-	-	-	-	-	(30)	30	-	-
Depletion and depreciation	-	(3,277)	(3,277)	-	-	-	-	-	(3,277)
Impairment	-	-	-	(1,036)	(1,036)	-	-	-	(1,036)
December 31, 2021	83,538	(56,846)	26,692	33,116	33,116	1,329	(1,090)	239	60,047

Note 1 – certain gas transportation assets owned by the Group are the subject of pledges under previous finance arrangements, refer note 19.

Note 2 – consists of vehicles, computer and office equipment.

Oil and gas properties – impairment assessment

As of December 31, 2021, the Group performed an assessment for impairment on the carrying value of its oil and gas assets. The Group's Cash Generating Units ("CGU"), were tested for impairment at that date. The recoverable amount was determined using the higher of Fair Value Less Cost of Disposal ("FVLCD") or Value in Use. Based on the impairment test performed by management, the recoverable amount of the CGUs was higher than their carrying values. The FVLCD was calculated using a discounted cash flow model based on the proved plus probable reserves using forecast crude oil and natural gas prices and an after-tax discount rate of 16.6% (2020: 14.6%).

The cash flow model used is considered a Level 3 fair value technique based on the unobservable inputs used. The FVLCD of the Group's CGUs at December 31, 2021 was not sensitive to a reasonably possible change in the discount rate.

The Group drilled and tested the AKD-13 deep exploration well in the Akkulka Exploration Contract area during 2021 and no oil was found. Since the Group does not plan to drill deep exploration wells in the Akkulka area for the foreseeable future the costs which had been capitalised were fully impaired in the amount of \$1,036,000 (2020: \$57,630,000).

The FVLCD calculation assumes forecast crude oil and natural gas sales prices in \$/bbl and \$/Mcf, which are the December 31, 2021 price forecasts made by the Group's independent reserve evaluator, McDaniel Associates, as shown in the table below.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

	Brent Crude Oil Price (\$/bbl)	Export Crude Oil Price (\$/bbl)	Domestic Crude Oil Price (\$/bbl)	Domestic Natural Gas Price (\$/Mcf)	Inflation rate %/year
Forecast					
2022	75.00	52.47	35.25	3.50	2.0
2023	69.87	48.61	32.84	3.57	2.0
2024	67.63	46.36	31.78	3.64	2.0
2025	68.98	47.72	32.42	3.71	2.0
2026	70.36	48.46	33.07	3.79	2.0
2027	71.77	49.87	33.73	3.86	2.0
2028	73.20	51.30	34.40	3.94	2.0
2029	74.66	52.77	35.09	4.02	2.0
2030	76.16	53.62	35.79	4.10	2.0
2031	77.68	55.15	36.51	4.18	2.0
2032	79.23	56.70	37.24	4.27	2.0
2033	80.82	57.65	37.99	4.35	2.0
2034	82.44	59.27	38.74	4.44	2.0
2035	84.08	70.91	39.51	4.53	2.0
2036	85.77	61.96	40.31	4.62	2.0
2037	87.48	63.68	41.12	4.71	2.0
2038	89.23	65.43	41.94	4.80	2.0
2039	91.02	66.57	42.78	4.90	2.0
2040	92.84	68.39	43.63	5.00	2.0
2041	94.69	70.25	44.51	5.10	2.0

12 Trade and other receivables and joint arrangements

12.1 Trade and other receivables

	2021	2020
Non-current		
Advances to construction contractors and other receivables	-	14
	-	14
Current		
Trade receivables, gross	-	134
Trade receivable, allowance for credit losses	-	(134)
Prepayments	190	513
Other receivables	869	422
VAT and other taxes	2,852	2,171
	3,911	3,106

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Group are 30 days. As at December 31, 2021, no trade receivables were overdue past 30 days (2020: \$134,000). No allowance for credit losses has been made at December 31, 2021 (2020: \$134,000).

The other classes within trade and other receivables do not contain impaired assets.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

12.2 Joint arrangements

Aral Oil Terminal (Kazakhstan)

On February 16, 2011, the Group signed a joint venture agreement with Olisol Investments Limited (“Olisol”) to construct and operate a rail oil loading terminal in Kazakhstan through a separate jointly controlled legal entity, Aral Oil Terminal LLP (“AOT”). The Group has a 50% interest in the AOT. The Group has classified the arrangement as a joint venture and it is accounted for using the equity method of accounting. At December 31, 2021, the carrying value of the Group’s investment in the joint venture was \$ nil (2020: nil) and the carrying value of loans made to the joint venture was also \$ nil (2020: nil) after full impairment in prior years.

13 Financial liabilities

13.1 Borrowings

	Interest rate per annum	Maturity date	2021	2020
Current				
Gemini unsecured loan	6%	2022	2,685	-
Non-current				
Gemini convertible debenture	4-9%	2023	3,893	3,019
Gemini unsecured loan	6%	2022	-	2,530
			3,893	5,549
			6,578	5,549

The fair value of financial liabilities held at amortised cost approximates the carrying value. None of the loan agreements contain financial covenants.

Gemini convertible debenture

On April 16, 2020, the Company announced that it had completed the issuance of a convertible debenture to Gemini IT Consultants DMCC (“Gemini”) in the amount of \$4.8 million. The debenture has a three year term and both interest and principal are due at maturity. The interest rate is 9% payable if held to maturity or 4% if converted prior to maturity. The amount outstanding on the debenture can be converted at the option of the holder, in whole or in part, at a price of \$0.31 per Tethys Petroleum Limited share on or before the maturity date.

The convertible debenture with Gemini was treated as a compound instrument in accordance with IAS 32 – *Financial instruments: Presentation*. The conversion option was treated on initial recognition as a component of equity measured at its fair value of \$2,279,000 and shown within *Other reserves*. The fair value of the loan upon initial recognition was reduced by the fair value of the conversion option and the difference between this carrying value and the amount payable at the maturity date has been amortised over the loan term using the effective interest rate. Key assumptions used in arriving at the fair value of the equity component were volatility of 91.4% and a risk free rate of 0.4%.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Gemini unsecured loan

On October 27, 2020, the Company announced that it had completed the issuance of an unsecured loan to Gemini in the amount of \$2.5 million. The loan has a two year term and both interest and principal are due at maturity. The interest rate is 6% and can be repaid early at the option of the Group without penalty.

13.2 Finance costs

The net finance cost comprises:

	2021	2020
Finance costs - borrowings	1,029	2,609
Finance costs – unwinding of discount on asset retirement obligation	175	159
Finance income	(27)	(123)
Total	1,177	2,645

14 Trade and other payables

	2021	2020
Current		
Trade payables	10,388	4,120
Accruals	3,340	2,189
Other creditors	2,241	2,043
	15,969	8,352

Trade payables are non-interest bearing and are normally settled on contractual terms which typically range from due on presentation of invoice to 30 days. Due to the Group's uneven receipts for oil and gas payments in 2021 and 2020 supplier payments were made on average later than the contractual payment terms. The increase in trade payables in 2021 mainly reflects amounts owed to the Group's drilling contractor for oil & gas wells drilled during the year.

15 Provisions

	2021	2020
<i>Asset retirement obligations:</i>		
Balance, beginning of year	1,706	1,689
Additions/change in estimated liability	330	(142)
Unwinding of discount	175	159
Balance, end of year	2,211	1,706

The Group makes provision for the future cost of decommissioning oil and gas production facilities and pipelines on a discounted basis. These costs are expected to be incurred between 2022 and 2029 and on average have been estimated to cost \$38,000 per well (2020: \$35,000). The provision has been estimated using existing technology at current prices, escalated at 5.3% (2020: 5.3%) and discounted at 9.7% (2020: 9.7%) representing the rate of return on Republic of Kazakhstan government securities with a similar term to

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

the asset retirement obligations. The economic life and the timing of the asset retirement obligation are dependent on Government legislation, commodity prices and the future production profiles of the projects. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party service provision. The undiscounted amount of liability at December 31, 2021 is \$2,984,000 (2020: \$2,541,000).

16 Capital and reserves

Share capital and share premium

				Number of shares
Authorised as at December 31, 2020 and December 31, 2021:				
Ordinary shares with a par value of \$0.10 each				145,000,000
Preference shares with a par value of \$0.01 each				50,000,000
Ordinary equity share capital				
Allotted and fully paid	Date	Number	Share Capital	Share Premium
At January 1, 2020				
Jaka Partners loan conversion	27 January 2020	4,657,892	466	978
Annuity & Life loan conversion	27 January 2020	13,973,677	1,397	2,935
Olisol Petroleum loan conversion	29 May 2020	18,000,000	1,800	6,132
At December 31, 2020 and January 1, 2021		104,955,999	10,495	370,814
Pope Investments II, LLC	15 April 2021	2,592,115	260	1,141
At December 31, 2021		107,548,114	10,755	371,955

The Gemini convertible debenture, including interest accruing to the maturity date, is convertible into 17,437,354 (2020: 17,437,354) ordinary shares if held to maturity and converted on the maturity date, refer to note 13 for further details.

Preference shares

The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008. Significant terms related to preference shares are summarised below:

- May be issued in one or more series;
- Are entitled to any dividends in priority to the ordinary shares;
- Confer upon the holders thereof rights in a winding-up priority to the ordinary shares;
- And may have such other rights, privileges and conditions (including voting rights) as the Board may determine prior to the first allotment of any series of preference shares, provided that if a series of preference shares has no or limited voting rights it shall be designated as such by the Board.

No preference shares have been issued by the Company.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Other reserves

Other reserves comprise of option reserves and warrant reserves as set out in the Statement of Changes in Equity. The option and warrant reserves relate to stock options issued to employees under the stock option plan and issuance of warrants, details of which are disclosed below.

Share options

The Company adopted a new stock option plan during the year pursuant to which the Company may grant stock options to any director, employee or consultant of the Company. The stock option plan was approved by shareholders at the Company's Annual General Meeting held on September 16, 2021.

The options granted during the year vest in three tranches with one third vesting after one year, one third after two years and one third after three years. The options allotted at January 1, 2021 vest only in certain limited conditions, such as a change of control. The options are equity settled share based payment transactions.

The following table lists the options outstanding at December 31, 2021 by exercise price:

Exercise price	Outstanding		Exercisable			
	Local	\$ equivalent	No of options	Weighted average remaining term (in years)	No of options	Weighted average remaining term (in years)
CAD1.00		0.78	600,000	4.84	-	4.84
GBP0.25		0.34	1,128,438	4.25	-	4.25

The following table summarises the activity under the stock option plan.

	2021		2020	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Allotted at January 1	1,277,188	0.34	1,362,188	0.43
Granted	600,000	0.78	-	-
Expired	-	-	(85,000)	1.97
Allotted at December 31	1,877,188	0.49	1,277,188	0.34
Exercisable at December 31	-	-	-	-

The fair value of the share-based payment grants is estimated using the Black-Scholes pricing model using the following average assumptions:

	2021
Weighted average fair value	\$0.50
Risk free rate	1.32%
Expected term	3.50 years
Volatility	236%
Dividend	Nil
Weighted average share price of options exercised in year	n/a

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

In estimating expected volatility, the Company considers the historical volatility of its own share price over the most recent period that is commensurate with the expected option term.

A share-based payments expense of \$27,000 was recognised during the year (2020: nil).

17 Related party transactions

A list of the investments in subsidiaries as at December 31, 2021 and 2020, including the name, proportion of ownership interest, nature of business, country of operation and country of registration, is given below.

	Percentage	Nature of business	Country of registration	Country of operation
Subsidiaries				
Tethys Kazakhstan SA	100%	Holding company	Belgium	Belgium
Transcontinental Oil Transportation SPRL	100%	Holding company	Belgium	Belgium
Tethyda Limited	100%	Group financing	Cyprus	Cyprus
TPL Holdings Limited	100%	Inactive	Cyprus	Cyprus
DMS Services LLP	100%	Service company	Kazakhstan	Kazakhstan
Tethys Aral Gas LLP	100%	Oil & gas E&P	Kazakhstan	Kazakhstan
Kul-Bas LLP	100%	Exploration	Kazakhstan	Kazakhstan
Tethys Services Kazakhstan LLP	100%	Inactive	Kazakhstan	Kazakhstan
Asia Oilfield Equipment BV	100%	Inactive	Netherlands	Kazakhstan
Jointly controlled entities				
Aral Oil Terminal	50.00%	Oil terminal operations	Kazakhstan	Kazakhstan

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Gemini IT Consultants DMCC

Gemini IT Consultants DMCC ("Gemini") owned 7.4% of the Company's ordinary shares at December 31, 2021. Gemini has made two loans to the Company which were outstanding at December 31, 2021, details of which are given in note 13.

Pope Asset Management and Annuity and Life Reassurance Ltd

Pope Asset Management ("PAM") is a Registered Investment Advisor managed by William P. Wells (Executive Chairman of Tethys). PAM clients own approximately 31.2% of the Company's ordinary shares at December 31, 2021. An affiliated company of PAM, Annuity and Life Reassurance Ltd., has acquired a 50% interest in the Gemini convertible debenture from Gemini, details of which are given in note 13.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Remuneration of key management personnel

Key management personnel have been identified as the CEO, CFO and the Non-Executive Directors who have served during the year. The remuneration of the key management personnel of the Group is set out below in aggregate.

	2021	2020
Salaries and short-term employee benefits	461	551
Total	461	551

Information on share options granted during the period is given in note 16. Share options granted to directors of the Company, who are considered related parties, comprised William Wells 200,000 share options, Yerlan Dikhanbayev, Adeola Ogunsemi and Mattias Sjoborg 100,000 share options each.

Ultimate controlling party

In the current and prior year there was no ultimate controlling party of the Group.

18 Cash and cash equivalents and notes to the Consolidated Statements of Cash Flows

18.1 Cash and cash equivalents

	2021	2020
Cash in bank deposit accounts	9,208	1,145
Cash in bank current accounts	79	604
Less: provision for expected credit losses	(10)	(2)
Total cash and cash equivalents	9,277	1,747

As at December 31, 2021 cash in bank deposit accounts were held at Sber Bank with maturity up to 200 days and annual interest rates of between 4.8 – 8.0% (2020: maturity up to 183 days and annual interest rates of between 5.7 – 8.0%). In light of the sanctions imposed on certain Russian institutions and individuals by the global community in February 2022 and subsequently, the Group transferred its bank deposit and bank current accounts from Sber Bank to a Kazakhstan bank.

For the year ended 31 December 2021 interest on savings and current account balances was equal to \$27,000 (2020: \$123,000).

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

18.2 Changes in working capital

	2021	2020
Trade and other receivables	(805)	9
Inventories	(23)	241
Trade and other payables	7,617	3,233
Deferred revenue	6,145	8,137
Change in working capital	12,934	11,620
Non-cash transactions	247	1,002
Net changes in working capital	13,181	12,622

Net changes in working capital are categorised in the Consolidated Statement of Cash Flows as follows:

	2021	2020
Operating activities	6,177	11,260
Investing activities	7,004	1,362
Balance	13,181	12,622

18.3 Reconciliation of movements of financial liabilities to cash flows arising from financial activities

	Financial liabilities		Equity	Total
	Non-current borrowings	Current borrowings	Net interest	
January 1, 2020	-	40,196	-	40,196
Repayment of current borrowings	-	(14,620)	-	(14,620)
New borrowings	7,304	-	-	7,304
Net cash used in financial activities	7,304	(14,620)	-	(7,316)
Interest expense (note 13.2)	524	2,085	-	2,609
Equity related changes	(2,279)	(27,661)	-	(29,940)
December 31, 2020 and January 1, 2021	5,549	-	-	5,549
Reclassification	(2,530)	2,530	-	-
Interest expense (note 13.2)	874	155	-	1,029
December 31, 2021	3,893	2,685	-	6,578

19 Commitments and contingencies

Litigation, claims and assessments

The Group is involved in claims and actions arising in the course of the Group's operations and is subject to various legal actions and exposures, including potential environmental claims and tax positions taken by the Group. Although the outcome of these claims cannot be predicted with certainty, the Group does not expect these matters to have a material adverse effect on the Group's financial position, cash flows or results of operations. If an unfavourable outcome were to occur, there exists the possibility of a material adverse impact on the Group's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognised if the Group determines that the loss is probable and the amount can be reasonably estimated. The Group believes it has made adequate provision

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

for such claims. While fully supportable in the Group's view, some of these positions, including uncertain tax positions, if challenged may not be fully sustained on review.

Kazakhstan

The regulatory environment including tax environment in the Republic of Kazakhstan is subject to change and inconsistent application, interpretations and enforcement, and in particular, existing subsurface use contracts are under close scrutiny by the tax and other authorities. This could result in unfavourable changes to the Group's tax positions. Non-compliance with Kazakhstan law and regulations as interpreted by the Kazakhstan authorities may lead to the assessment of additional taxes, penalties and interest. Kazakhstan tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Tax periods remain open to retroactive review by the tax authorities for five years. Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained.

Exploration and production contract work programs

Work programs for exploration and production contracts include a required level of "Investments" as defined in the contracts. "Investments" includes capital expenditure, operating expenses, social sphere, sub-soil monitoring and specialist training costs. It is this required level of Investments that forms the principal financial obligation of the Group in respect of its work program commitments and against which the Group is mainly measured along with production volumes in the production contracts.

Failure by the Group to meet the required level of financial obligations in any given year results in a financial penalty for that year of 1% of the amount by which actual performance falls short of the required level. Repeated non-compliances by a license holder could result in a license being terminated, unless the non-compliances have been remedied by the license holder or waived by the licensing authority. At the date of this report the Group had not received any notifications of actual or threatened termination of any of the Group's licenses.

In addition, an assumed level of other costs forms part of the overall work program (insurance, liquidation fund, indirect costs and taxes). Taken together with the Investments amount described above these form the Group's "Financial obligations, total" as defined in the contracts and as set out in the table below. The work program commitments in Kazakhstan can be summarised as follows:

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

	Kazakhstan Work Program Commitments			
	Expiry date	Program 2021	Spend during 2021	Program 2022 & later
Akkulka Production Contract (Gas)	2026			
Financial obligations, total		2,925	1,405	6,284
Investments		1,923	1,141	2,538
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		8,182	3,290	35,161
Investments		5,778	2,617	15,134
Akkulka Exploration Contract (Oil)	2022			
Financial obligations, total		2,398	5,680	-
Investments		1,823	4,499	-
Kul-Bas Exploration Contract	2023			
Financial obligations, total		20,417	11,813	4,993
Investments		20,417	11,321	4,993
Total				
Financial obligations, total		33,922	22,188	46,438
Investments (subset of Financial obligations)		29,941	19,578	22,665

The amounts shown in the table above under ‘Spend to date’ have been incurred in 2021 and, as noted above, include a mixture of capital expenditure, operating expenses, social sphere payments, sub-soil monitoring and specialist training costs, insurance costs, liquidation fund payments, indirect costs and taxes as specified in the respective exploration and production contracts. Such amounts have been recognised in these financial statements in either the Consolidated Statements of Loss and Comprehensive Loss, Consolidated Statement of Financial Position or Consolidated Statement of Cash Flows in accordance with the Group’s respective accounting policies. Amounts shown in the table above under ‘Program 2022 & later’ have generally not been incurred as they are in the nature of future contractual commitments and so have not been recognised in these financial statements.

Apart from the Group’s work program commitments, other amounts may become payable in certain circumstances as described below.

Historical cost obligations

In the event of an official confirmation of reserves by the Kazakhstan Ministry of Energy, which is a requirement for a commercial production license, the Group would be required to pay for historical costs of up to \$2,698,532 in the case of the Akkulka Exploration License and up to \$28,880,550 in the case of the Kul-Bas Exploration and Production Contract. To date, the Group has made payments totalling \$610,369 towards Kul-bas historical costs. Under current regulations, the remaining balance would be payable quarterly over a period of up to 10 years.

DSFK pledges and settlement agreement

On February 8, 2020 the Company announced that it had reached a legally binding settlement agreement with Olisol Petroleum Limited, Eurasia Gas Group LLP (“EGG”) and their principals and DSFK Special Finance Company (“DSFK”), (hereinafter the “Settlement Agreement”).

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

Tethys subsidiary, TethysAralGas LLP ("TAG"), agreed to pay DSFK a settlement payment of KZT 1,434,692,762 (approximately \$3.4 million) to cancel and release TAG from all obligations under the pledge agreements under which TAG's gas transportation assets were pledged to DSFK.

On June 8, 2020, the Company announced that the Kazakhstan Supreme court had ratified the agreement effective May 26, 2020. TAG subsequently made the required financial payment of 1,434,692,762 Tenge, equivalent to \$3,424,000, and the Company issued the 18 million shares necessary to fulfil the Group's obligations under the Settlement Agreement. At the date of these Consolidated Financial Statements DSFK has not yet released TAG from all obligations under the pledge agreements under which TAG's gas transportation assets were pledged to DSFK.

On January 26, 2022 DSFK informed TAG that they will proceed to release the pledged assets only after EGG has fulfilled its obligations under the Settlement Agreement, otherwise DSFK will apply to court for a writ to enforce repayment of the debt owed by EGG and to foreclose on TAG's pledged assets. To the best of the Group's knowledge, at the current time, DSFK has not taken these steps and the Group is considering legal action seeking the release of TAG's pledges.

Tajikistan

In May 2016, the Group's former subsidiary Kulob Petroleum Limited ("Kulob") was notified by Total E&P Tajikistan B.V. ("Total") that it had been required to pay the equivalent of \$5.0 million to the tax authorities in Tajikistan in relation to the farm-out of part of the Group's interest to Total in 2013. Total was seeking to have the Kulob indemnify it for these taxes under the terms of the farm-out agreement. Kulob disagreed with Total's interpretation of the farm-out agreement or that it is liable to indemnify Total for these taxes. No similar claim has been received from CNPC although the terms of the farm-out with CNPC were the same for Total and CNPC.

On December 30, 2017 the Group announced that Kulob had been notified of a final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract and Joint Operating Agreement and Shareholders' Agreement with Total and CNPC Central Asia B.V. ("CNPC") pertaining to oil and gas exploration and production rights in Tajikistan.

The Arbitral Tribunal of the ICC (the "Tribunal") ordered, inter alia, that Kulob should pay Total and CNPC an amount of damages amounting to approximately \$13.9 million.

The Company does not expect the decisions of the Tribunal to have a significant effect on the results, cash flows or financial position of the Company since it was not a party to the arbitration, does not believe it is responsible for the obligations of Kulob and has not provided any guarantees on behalf of Kulob. Total and CNPC have asserted that the Company should be responsible for Kulob's liabilities however the Company does not believe there is any basis for this claim and no provisions has been made in these consolidated financial statements.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

20 Events after the reporting period

The following subsequent events have been treated as non-adjusting as so have not been reflected in these consolidated financial statements, except where noted below.

- *State of emergency due to protests in Kazakhstan*

On January 2, 2022, rallies were held in the Mangistau region against a sharp increase in the price of liquefied gas, which later turned into mass protests across the country with economic and political demands. On January 4 and 5, 2022 protesters clashed with law enforcement officers in the city of Almaty, which resulted in damage to public and private property, looting and other crimes.

To ensure order and normalize the situation in the country, the President of the Republic of Kazakhstan introduced a State of Emergency for the period from January 5 to January 19, 2022, throughout the territory of Kazakhstan, and also received assistance from countries that are members of the Collective Security Treaty Organization. The measures taken by the President included the imposition of a curfew, strengthening measures to protect especially important state and strategic facilities, as well as facilities that ensure the vital activity of the population and the functioning of transport, the imposition of restrictions on movement, holding meetings and rallies, and other measures aimed at ensuring the safety of the population.

The Company increased salaries and wages to its employees to address affordability of fuel and has taken other appropriate measures to reduce the impact of the state of emergency in Kazakhstan on operating and financial results.

- *Normal Course Issuer Bid*

In February 2022, the Company announced that it had received TSXV approval to make a Normal Course Issuer Bid. The Company may acquire up to 5,377,000 common shares (roughly 5% of the shares outstanding of the Company) during the period on or about February 7, 2022 to February 7, 2023. The Company plans to use ATB Capital Markets as its Member broker to conduct the purchases. Purchases will be effected through the facilities of the Exchange. Purchase and payment for the securities will be made by the Company in accordance with Exchange requirements. The price which the Company will pay will be the market price at the time of acquisition. The Company believes the shares are undervalued and any repurchases will provide a positive return on investment and enhance shareholder value.

- *The situation in Ukraine*

On February 24, 2022, the Russian Federation announced the recognition of the self-announced Luhansk People's Republic and Donetsk People's Republic independence, and the Russian military mobilized its troops to the territory of Ukraine. As a response to Russian actions, the United States, Canada, the European Union, and other states imposed severe sanctions against Russia including the banning of a number of Russian financial institutions from SWIFT, restricted transportation to and from territory of the Russian Federation, and many others, which led to the sharp devaluation of the Russian ruble and

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2021

(tabular amounts in thousands of US dollars, except where otherwise noted)

the Kazakhstani tenge. Kazakhstan and Russia have many close economic connections, for example, the vast majority of Kazakhstan oil is exported through pipelines and ports in Russia. The Company's financial position is currently not materially affected by the events in Ukraine as the Company's oil revenues are from domestic sales and made in US dollars, which reduces the Group's foreign exchange risk.

The management of the Company is continuing to assess the potential impact of these events on the Company's financial statements.

- *Oil sales agreement*

On March 3, 2022 the Group agreed a contract for the sale of 50,000 tons of crude oil at a minimum price of \$385 per ton, including VAT. In accordance with the terms of the contract, payment of \$19,250,000 has been received in advance from the buyer.